



Qatar Exchange
Bonds & Sukuk trading
June 2013



Agenda

- What is a bond ?
- The benefits of investing in bonds
- Bonds prices
- Bonds yields
- Listing of Bonds and Islamic Sukuk at Qatar Exchange



What is a bond/sukuk?

What is a bond/sukuk?

- Bonds are debt securities, which are issued by Governments (Government or Sovereign Bonds) and Corporations (Corporate Bonds) to investors in order to raise capital.
- Islamic sukuk are also debt securities and have the same structure and purpose as bonds but are issued pursuant to the provisions of the Islamic Shari'a.

What is a bond/sukuk?

- A bond/sukuk is characterised by the following attributes:
 - **Issuer** (credit risk): this allows to assess its ability to repay the borrowed capital and thus provides an idea about the bond's risk.
 - **Coupon Rate (Interest or Profit Rate)**: periodic interest or profit payment made by the borrower to the investor on each of the coupon payment dates.
 - **Maturity Date** (the date at which the par value will be repaid): The rate of long maturity bonds is generally higher than that of the short maturity bonds, because investors require higher rates for committing to investments for longer periods.



Why invest in
bonds/sukuk?

Why invest in bonds/sukuk?

- Investing in bonds/sukuk allow to reach various objectives:
 - Income from periodic coupons payments.
 - Bonds/sukuk are less risky than equities (in case of the issuer liquidation, bondholders are senior to shareholders).
 - Allow portfolio diversification in a different class of investments.
- However, bonds are not risk-free as:
 - Any default by the issuer may render the bond/sukuk worthless.
 - Because of prices fluctuations, if the bond/sukuk is sold on the secondary market – prior to the maturity – the investor may receive less in return than the value of the original investment.

Why invest in bonds?

Equities	Bonds
A shareholder becomes a part owner of the company in which shares are held	The bondholder is a lender
High volatility	Low Volatility
Dividend income is dependent on the performance of the company	Coupon income is fixed
In bankruptcy proceedings, shareholders rank below creditors	In bankruptcy, bondholders, as creditors, are senior shareholders
Shares in the profits/losses of the company	Receives only the coupon and par value



Bonds/sukuk prices

Bonds/sukuk prices

- Expressed as a percentage of the bond's par value (a bond is said on par if its price is 100, trading at a discount if the price is lower than 100, or at a premium if the price is higher than 100).
- After issuance, bonds prices vary depending on various factors:
 - Interest rates: Bonds prices fall when interest rate rise and vice versa.
 - Maturity date: Bonds prices are more sensible for longer maturities bonds.

Bonds/sukuk prices

- Bond currency: Bonds prices drop when the denomination currency is devaluated.
- Repayments schedule: Bonds prices sensitivity is impacted by the cash flow structure of the bond. Prices are more sensitive for bonds with less frequent coupons payments.
- Credit rating: Any modification to the bond or the issuer credit rating will impact the bond price. Credit rating deterioration leads to a drop in the issuer bonds prices.
- Issuer's Creditworthiness: This factor impacts the bond price even when the issuer is not rated.
- Technical factors: Such as constraints on funds managers, etc.
- Liquidity: Price fluctuations of illiquid bonds will be more volatile than those of liquid bonds.



Bonds/sukuk Yields

Bonds yields

- The yield (rate of return) provides a measure of the total return that an investor will receive if the purchased bond is held until it matures.
- The yield should not be confused with the coupon rate.
- Yield will fluctuate with an inverse correlation to the price. The higher the price paid for the bond, the lower the yield will be, and vice versa.

Bonds yields

- Current yield is the annual percentage return that an investor receives from the coupon payments in relation to the price paid:

$$\text{Current Yield} = \frac{\text{Annual QAR Interest Received}}{\text{Price Paid}} \times 100$$

- Yield to maturity provides the implied interest rate that an investor will benefit from if all of the bonds cash flows (coupons and par value repayment) are invested at a constant rate until the maturity date of the bond

$$\text{Price} = \text{Cashflow} \times \frac{1 - \left[\frac{1}{(1 + \text{Yield})^n} \right]}{\text{Yield}} + \left[\text{Par Value} \times \frac{1}{(1 + \text{Yield})^n} \right]$$



Bonds/sukuks at QE

Pricing mechanism

- All bonds and sukuk on QE will be listed with a par value of QAR 10,000 and will be priced as a percentage of that par value.
- The trading value of a bond/sukuk trade is equal to:

$$\left(\frac{\text{Price}}{100} \times \text{Par Value} \right) \times \text{Number of Bonds}$$

- **Example:**

- Price = 98%
- Number of bonds purchased or sold = 100
- Therefore, the nominal value of the trade will be: QAR 980,000

Settlement value

- The settlement value or consideration of a trade is the actual amount of money to be paid or received when the trade settles. It is equivalent to the nominal value and any accrued interest.
- The accrued interest is calculated as follow

$$AI = \left(\frac{T}{P}\right) \times (\text{Par Value} \times \text{Number of Bonds}) \times \left(\frac{\text{Coupon Rate}/2}{100}\right)$$

Where:

AI = Accrued Interest

T = The number of days from the last coupon date to the settlement date

P= the number of days from the last coupon date to the next coupon date

Settlement value

■ Example:

- Price = 98.00%
- T = 60 days
- P = 184 days
- Coupon Rate = 3%
- Number of Bonds = 100

$$\text{Accrued Interest} = \left(\frac{T}{P}\right) \times (\text{Par Value} \times \text{Number of Bonds}) \times \left(\frac{\text{Coupon Rate}/2}{100}\right) = \text{QAR } 4891.30$$

$$\text{Book Value} = \left(\left(\frac{98}{100}\right) \times 10000\right) \times 100 = \text{QAR } 980,000$$

- Therefore, the buyer pays and the seller receives the settlement value (excluding fees) of Book Value + Accrued Interest = **QAR 984,891.30**

Trading cycle

- On normal market the following cycle applies (similar to shares):

Phase	Timing
Pre-open Period	9:00 – 9:30
No-Cancel Period	9:25 – 9:30
Opening Auction followed by Continuous Trading	9:30 – 13:00
Pre-Closing Period	13:00 – 13:10
No-Cancel Period	13:05 – 13:10
Closing Auction and Trading At Last (closing price)	13:10 – 13:15

Trading cycle

- On special market the following cycle applies:

Phase	Timing
Continuous Trading Period	9:30 – 13:15
Market Close	13:15

Collars, ticks and fees

- Static Collars for bonds/sukuk will be 3% of the previous day's closing price.
- Dynamic Collars for bonds/sukuk will be 2% of the last executed trade price.
- The Tick Size for bonds/sukuk will be 0.01% regardless of the price.
- Fees for bond/sukuk trading are charged by the brokers for each trade, whether buy or sell. Please refer to your broker for more information on fees charged for bonds/sukuk.

Trading reports

- Current trading report will be upgraded to include a section about bonds/sukuk (and bonds/sukuk trading activity will be added to the market total activity). The report will include:
 - Bond/sukuk ISIN code and name,
 - Previous closing price and current closing price
 - Total trading value, number of trades and total trading volume.
- QE website will include all the characteristics of each bond/sukuk:
 - Bond/sukuk ISIN code and name
 - Issue date, listing date
 - Nominal value, par value, maturity date, coupon frequency, coupon rate and next coupon date.
 - Accrued interest.



Trading Constraints

- There are no restrictions on investors wishing to trade in bonds, except where an issuer sets conditions on the bond issue at the time of listing.
- There are no restrictions on trading transactions carried out by foreign investors in bonds.